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ACTION WHA-00

RELEASED IN FULL

INFO	LOG-00	NP-00	AID-00	CEA-01	COME-00	CTME-00	INL-00
	DINT-00	ITCE-00	DOTE-00	SRPP-00	EAP-00	EB-00	EXME-00
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	OES-01	OMB-01	OPIC-01	PM-00	PRS-00	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00
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R 291459Z MAY 02
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 0000
INFO OPEC COLLECTIVE
AMEMBASSY BRASILIA
AMEMBASSY CARACAS
AMEMBASSY LIMA
AMEMBASSY PANAMA
AMEMBASSY QUITO
CIA WASHDC
JOINT STAFF WASHDC
NSC WASHDC
USCINCSO MIAMI FL
DOE HQS FORRESTAL BLDG WASHINGTON DC

SECDEF WASHDC

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SENSITIVE

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E.O. 12958: N/A
TAGS: ENRG, EPET, ECON, CO
SUBJECT: OIL AND NATURAL GAS EXPLORATION IN COLOMBIA

REF: A. BOGOTA 1807
B. 2001 BOGOTA 9813
C. BOGOTA 2299

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SUMMARY

1. (SBU) ACCORDING TO A SENIOR OFFICIAL OF STATE-OWNED OIL FIRM ECOPETROL, WITHOUT A MAJOR NEW PETROLEUM FIND THAT CAN BE BROUGHT ONLINE QUICKLY, COLOMBIA WILL GO FROM BEING A SELF-SUFFICIENT EXPORTER TO AN IMPORTER IN 2008. HOWEVER, ECOPETROL IS CONFIDENT THAT THE POTENTIAL, BOTH GEOLOGICALLY AND ECONOMICALLY, EXISTS FOR SUCH A FIND. LIKEWISE, COLOMBIA WILL LOSE SELF-SUFFICIENCY IN NATURAL GAS BY 2009 WITHOUT A MAJOR NEW FIND, BUT OFF-SHORE FIELDS REPRESENT SIGNIFICANT POSSIBILITIES. THE GOC HAS TAKEN GREAT STRIDES IN PROVIDING AN ATTRACTIVE INVESTMENT REGIME TO ENCOURAGE THE ENTRY OF FOREIGN FIRMS, BUT IS HAMPERED BY AN INTERNAL SECURITY SITUATION THAT DAMAGES COLOMBIA'S WORLDWIDE IMAGE.

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OCCIDENTAL PETROLEUM HAS ANNOUNCED THAT IT IS RETURNING TO ECOPETROL THE RIGHTS TO EXPLORATION AND PRODUCTION IN THE ONCE-PROMISING SAMORE BLOCK. NONETHELESS, ECOPETROL HAS SIGNED 60 NEW EXPLORATION CONTRACTS IN THE LAST TWO YEARS, A RECORD FOR COLOMBIA, AND EXPECTS TO SIGN 20 IN 2002. END SUMMARY.

THE CHALLENGES

2. (SBU) ECOPETROL VICE PRESIDENT FOR EXPLORATION AND PRODUCTION VICTOR PEREZ RECENTLY OUTLINED COLOMBIA'S ENERGY PRODUCTION FOR ECONOFFS. HE SAID THAT COLOMBIA HAS CURRENT INTERNAL DEMAND FOR 220,000 BARRELS PER DAY OF OIL. COLOMBIA PRESENTLY PRODUCES OVER 600,000 BARRELS A DAY. WITHOUT SIGNIFICANT NEW FINDS, THIS PRODUCTION WILL DROP AS OLDER FIELDS, SUCH AS CANO LIMON, OPERATED BY OCCIDENTAL PETROLEUM, BEGIN TO PLAY OUT, GIVING RISE TO THE THREAT THAT COLOMBIA WILL NO LONGER BE ABLE TO PRODUCE ENOUGH OIL TO MEET ITS OWN DOMESTIC NEEDS SOMETIME IN THE LAST HALF OF THE DECADE, PROBABLY BY 2008. COLOMBIA ALSO HAS LARGE RESERVES OF NATURAL GAS, BUT AT CURRENT RATES OF USAGE AND WITHOUT NEW FINDS THESE FIELDS WILL ALSO STOP BEING ABLE TO MEET DOMESTIC NEEDS.

WHERE IS THE OIL?

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 3. (SBU) DESPITE EVIDENCE THAT COLOMBIA SHOULD HAVE
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 SIGNIFICANT OIL RESERVES FORMED BY THE SAME GEOLOGIC
 CONDITIONS THAT CREATED VENEZUELA'S MARACAIBO FIELDS,
 DIFFICULT DRILLING ENVIRONMENTS HAVE PREVENTED COLOMBIA FROM
 REACHING THE SAME LEVELS OF PRODUCTION AS VENEZUELA. DUE TO
 COLOMBIA'S MORE VIOLENT TECTONIC HISTORY THE COLOMBIAN
 RESERVES ARE BOTH DEEPER AND MORE BROKEN UP THAN IS THE CASE
 IN VENEZUELA. COLOMBIA ALSO CONTINUES TO BE SIGNIFICANTLY
 UNDEREXPLORED WITH ONLY TWO EXPLORATORY WELLS PER 1000 SQUARE
 KILOMETERS, COMPARED TO NEARLY 88 PER 1000 SQUARE KILOMETERS
 IN THE UNITED STATES.

4. (SBU) NONETHELESS, PEREZ NOTED, TWO OF THE TOP 25 OIL
 FINDS IN THE WORLD DURING THE 90'S OCCURRED IN COLOMBIA, THE
 CUPUAGUA AND CUSIANA FIELDS, OPERATED BY BRITISH PETROLEUM.
 THE PIEDEMONTE LLANERO (OR EASTERN FOOTHILLS) AT THE EDGE OF
 THE EASTERN CORDILLERA OF THE ANDES IS CONSIDERED ONE OF THE
 10 MOST ATTRACTIVE SPOTS IN THE WORLD FOR ANOTHER LARGE FIND,
 HE ASSERTED. THIS REGION HAS ATTRACTED INTEREST FROM LARGE
 FOREIGN OIL COMPANIES, INCLUDING SEVEN OF THE TOP TEN OIL
 COMPANIES AND LUKOIL FROM RUSSIA. ECOPETROL IS ALSO
 PREDICTING A MORE THAN 40 PERCENT JUMP IN SEISMIC TESTING IN
 2002 COMPARED TO 2001, WHICH WAS ALREADY A RECORD YEAR.

 SOME NEW FINDS ALREADY

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 FM AMEMBASSY BOGOTA

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TO SECSTATE WASHDC 0000
INFO OPEC COLLECTIVE
AMEMBASSY BRASILIA
AMEMBASSY CARACAS
AMEMBASSY LIMA
AMEMBASSY PANAMA
AMEMBASSY QUITO
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5. (SBU) ALREADY THIS YEAR, TWO FIELDS CAPABLE OF PRODUCING MORE THAN 4500 BARRELS PER DAY HAVE BEEN BROUGHT ONLINE. MORE EXPLORATION IS NECESSARY TO DETERMINE EXACTLY HOW LARGE THESE FIELDS ARE, BUT THEY REPRESENT THE FIRST SIGNIFICANT NEW FINDS IN COLOMBIA IN THE PAST 10 YEARS. THE CAPACHOS FIELD IN THE PIEDEMONTE REGION NOT FAR FROM CANO LIMON IN ARAUCA IS BEING EXPLOITED BY SPANISH FIRM REPSOL IN ASSOCIATION WITH FRENCH FIRM, TOTAL. ECOPETROL IS WORKING WITH BRASPETRO OF BRAZIL TO BEGIN A PROGRAM OF WATER INJECTION INTO THE GUANDO FIELD IN THE UPPER VALLEY OF THE MAGDALENA RIVER THAT COULD RAISE PRODUCTION THERE TO 25,000 BARRELS PER DAY WITHIN THREE YEARS. ECOPETROL BELIEVES THAT THERE ARE AT LEAST THREE FIELDS IN THE PIEDEMONTE AREA WITH THE POTENTIAL TO BE "GIANT" FINDS, DEFINED AS GREATER THAN 500 MILLION BARRELS, INCLUDING THE NISCOTA BLOCK, NORTH OF THE CUSIANA FIELD. WORKING WITH BP, EXPLORATORY DRILLING WILL BEGIN IN THE NEXT MONTH AND WILL TAKE UP TO A YEAR TO REACH A DEPTH OF 16,000 FEET WHERE THE OIL IS BELIEVED TO LIE. OMIMEX OF COLOMBIA HAS ANNOUNCED THAT 35 OF 103 WELLS

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IN THE PUERTO BOYACA AREA ARE READY TO BEGIN PUMPING OIL.
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PRODUCTION SHOULD REACH 6000 BARRELS PER DAY BY THE END OF
JUNE AND 10,000 WITHIN EIGHT MONTHS. THE COMPANY BELIEVES
THE FIELD COULD HOLD 93 MILLION BARRELS OF OIL.

THE INVESTMENT CLIMATE

6. (SBU) THE PASTRANA ADMINISTRATION, PEREZ RECOUNTED, HAS
MADE A SERIOUS EFFORT TO REFORM THE PREVIOUS COLOMBIAN
ROYALTY LAW WHICH OFTEN MADE EXPLORATION AND PRODUCTION
UNVIABLE ECONOMICALLY. IT OBTAINED PASSAGE OF A NEW LAW THAT
INTRODUCED A VARIABLE ROYALTY RATE IN 2000 AS PART OF AN
OMNIBUS ENERGY BILL. UNDER THE NEW LAW THE PRIOR RATE THAT
TOOK 20 PERCENT OF GROSS REVENUES FOR NATIONAL ROYALTIES WAS
CONVERTED TO A SLIDING SCALE BASED ON THE PRODUCTION AND
PROFITABILITY OF A FIND. ECOPETROL IMMEDIATELY BEGAN SIGNING
NEW INVESTMENT CONTRACTS. UNFORTUNATELY, THERE IS STILL
UNCERTAINTY REGARDING THE STATUS OF THE LEGISLATION. THE LAW
WAS STRUCK DOWN BY THE CONSTITUTIONAL COURT DUE TO TECHNICAL
PROBLEMS WITH ANOTHER UNRELATED SECTION OF THE LAW. A
ONE-YEAR GRACE PERIOD TO CONTINUE SIGNING CONTRACTS UNDER THE
LAW WAS GRANTED BY THE COURTS LAST YEAR TO PROVIDE TIME FOR A
NEW BILL TO BE PASSED. THAT BILL HAS RECENTLY BEEN THE
SUBJECT OF CRITICISM BY SENATORS FROM DEPARTMENTS THAT WOULD
STAND TO LOSE ROYALTIES. LIKewise, GOVERNORS FROM THE
AFFECTED DEPARTMENTS ARE RAISING COMPLAINTS. THE BILL'S
SUPPORTERS IN THE COLOMBIAN CONGRESS COUNTER THAT "FIVE
PERCENT OF SOMETHING IS BETTER THAN 20 PERCENT OF NOTHING."
THE ADMINISTRATION STILL SUPPORTS THE BILL AND PROSPECTS FOR
THE NEW BILL'S PASSAGE ARE CONSIDERED GOOD.

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OXY GIVES BACK SAMORE

7. (U) PEREZ NOTED AFTER 11 YEARS OF EXPLORATION AND USD 100
MILLION OF INVESTMENTS, OCCIDENTAL PETROLEUM DECIDED IN APRIL
TO RELINQUISH ITS RIGHTS TO EXPLORATION ON 47,000 HECTARES
FORMING THE SAMORE BLOCK IN NORTE DE SANTANDER DEPARTMENT.
WHILE THE SEISMIC AND GEOLOGIC EVIDENCE INDICATES THE
EXISTENCE OF HYDROCARBONS, THE COMPANY HAS DECIDED THAT THE

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FIELD IS NOT ECONOMICALLY VIABLE. THE SITE HAS ALSO BEEN
 PLAGUED BY PROTESTS FROM INDIGENOUS GROUPS CONCERNED ABOUT
 DRILLING ON OR NEAR ITS TERRITORIAL RESERVATION AND BY THE
 THREAT OF ATTACKS OR KIDNAPPINGS BY ELN ELEMENTS ACTIVE IN
 THE AREA. (NOTE: OCCIDENTAL SOUGHT AND RECEIVED SIGNIFICANT
 ASSISTANCE FROM THE EMBASSY IN ITS SUCCESSFUL EFFORTS TO
 OBTAIN NEEDED PERMITS AND ADEQUATE SECURITY FROM THE
 COLOMBIAN ARMY AND POLICE ALLOWING FOR ITS EXPLORATORY
 DRILLING IN SAMORE. END NOTE.) HOWEVER, BOTH OCCIDENTAL AND
 ECOPETROL REITERATED PUBLICLY THAT OCCIDENTAL'S DECISION WAS
 BASED ON ECONOMIC FACTORS. ECOPETROL REPORTEDLY WILL
 CONTINUE THE EXPLORATION AND WILL CONTINUE DRILLING TO THE
 DEPTH AT WHICH OIL IS BELIEVED TO EXIST.

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	SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00
	PMB-00	DRL-02	G-00	NFAT-00	SAS-00	/010W	

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R 291459Z MAY 02
 FM AMEMBASSY BOGOTA
 TO SECSTATE WASHDC 0000
 INFO OPEC COLLECTIVE
 AMEMBASSY BRASILIA
 AMEMBASSY CARACAS
 AMEMBASSY LIMA
 AMEMBASSY PANAMA
 AMEMBASSY QUITO
 CIA WASHDC
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THE OUTLOOK FOR NATURAL GAS

8. (SBU) GLOBAL DEMAND FOR NATURAL GAS IS GROWING FASTER THAN DEMAND FOR PETROLEUM. HOWEVER, PEREZ SAID COLOMBIA IS NOT AN EXPORTER OF NATURAL GAS DUE TO THE FACT THAT ITS NATURAL GAS MUST BE USED FOR DOMESTIC ELECTRICITY PRODUCTION.

DESPITE SIGNIFICANT OFF-SHORE POTENTIAL, THE COST OF EXPLORING AND DEVELOPING THE SITES IS NOT VIABLE WITH CURRENT REGULATIONS THAT FIX THE PRICE OF THE GAS FOR SALE TO THE ELECTRIC GENERATION PLANTS. TEXACO HAS RECENTLY RETURNED TWO EXPLORATION BLOCKS THAT WERE CONTRACTED UNDER THE OLD ROYALTY LAW. PEREZ BELIEVES THAT TEXACO MAY TRY TO REACQUIRE THE BLOCKS UNDER THE CONDITIONS OF THE NEW LAW. ECOPETROL HAS 11 PROSPECTS WHICH MAY HAVE RESERVES GREATER THAN ONE TRILLION CUBIC FEET, TWO OF WHICH COULD BE GREATER THAN SIX TRILLION CUBIC FEET. THE TOTAL OFF-SHORE ESTIMATE IS 35 TRILLION CUBIC FEET OF NATURAL GAS AND THREE BILLION BARRELS OF OIL.

COMMENT

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9. (SBU) IT IS TOO EARLY TO SAY WHETHER ENOUGH OIL CAN BE FOUND AND BROUGHT ONLINE TO HEAD OFF A SHORTFALL BY THE END OF THE DECADE. ECOPETROL ESTIMATES THAT WITH THE CURRENT ROUND OF EXPLORATION AND NEW FINDS THAT COLOMBIA'S OIL PRODUCTION COULD APPROACH 800,000 BARRELS PER DAY BY 2010. BUT IT IS ALSO POSSIBLE THAT NONE OF THESE FIELDS WILL PAN OUT. ECOPETROL HAS BEEN AGGRESSIVE BOTH IN PUSHING FOR LEGISLATION TO IMPROVE THE INVESTMENT CLIMATE AND IN GETTING OUT THE MESSAGE THAT COLOMBIA IS OPEN FOR BUSINESS. THE MORE DRILLING THAT TAKES PLACE THE GREATER THE ODDS OF FINDING THE BIG DISCOVERY THAT COLOMBIA NEEDS, BUT IT REMAINS TO BE SEEN IF THE BEST EFFORTS OF ECOPETROL AND THE PASTRANA

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ADMINISTRATION TO ATTRACT THIS EXPLORATION ACTIVITY WILL BE
GOOD ENOUGH.

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